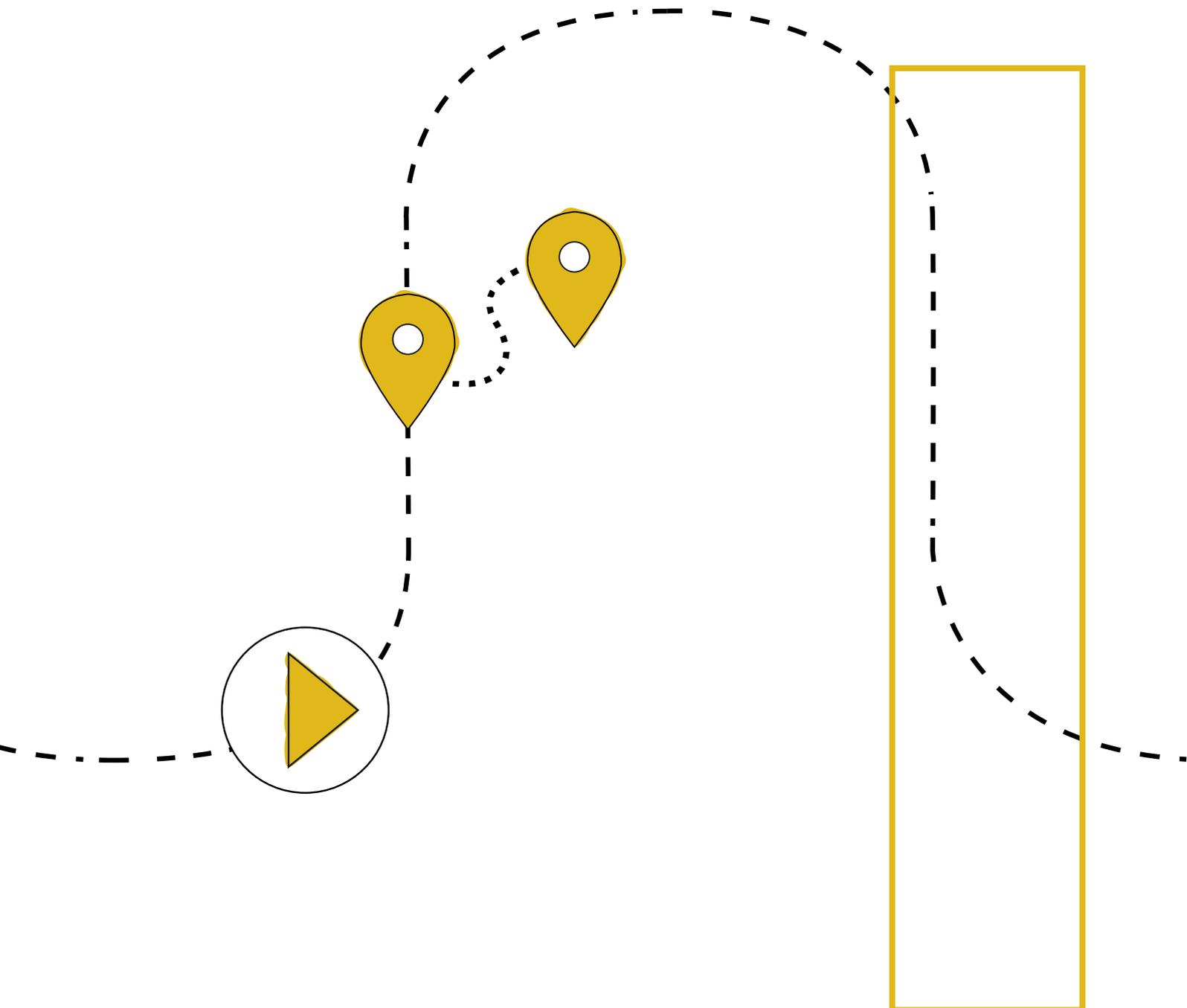


Introduction

Social Investment Toolkit

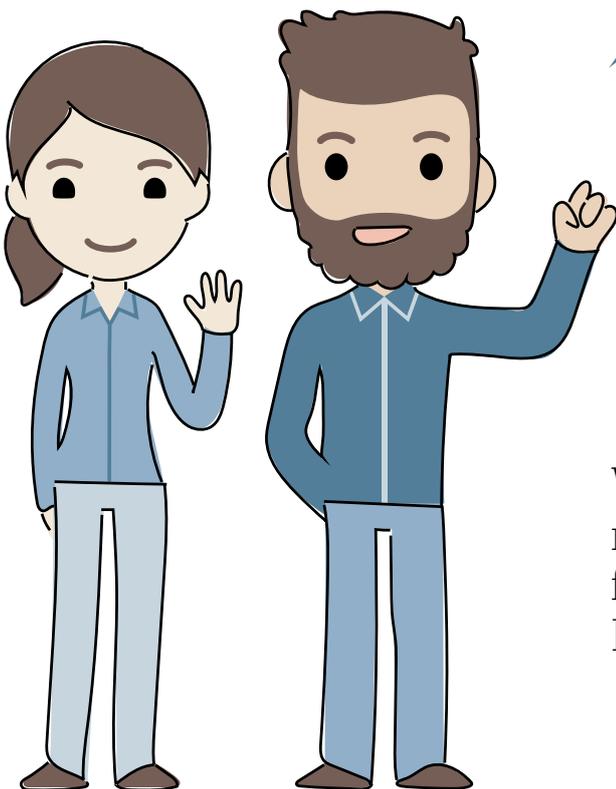


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Welcome to the Social Investment Toolkit! This Toolkit presents a series of modules that guide social entrepreneurs along the path of raising social investment. Along the way, we seek to present you with:

- key finance concepts that you will need;
- tips on what social investors are looking for;
- key items of information that social investors need in order to make an informed decision;
- tools and resources to produce items such as term sheets and financial models

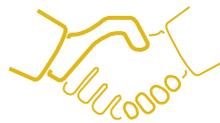


We are keen to receive your feedback for the Social Investment Toolkit.

Why a social investment toolkit?

The information and ideas presented here reflect over a decade of work at Chelwood Capital and Ashoka helping social entrepreneurs successfully navigate the complex task of raising social finance. During this time, we have observed some of the challenges that social entrepreneurs face and how those who were successful overcame these obstacles to raise substantial amounts of capital. We want to share their stories of success with you and explain how they did it.

In particular, we observed that social entrepreneurs repeatedly come up against the following common challenges:



– **Developing the right business model –**

Social entrepreneurs don't just want to make profit, they want to solve a social problem. Finding a way of doing so using a sustainable business model is hard. You have to find customers willing and able to pay you for a product or service. This requires a mind-set very different from a traditional charity.



– **Finding a common language with social investors –**

Even if social entrepreneurs develop an investable and scalable business model, they often don't know how to speak to social investors. Investors (social and commercial) use terms such as 'revenue model', 'gross and net profit margins', and 'return on investment'. Social entrepreneurs often lack a clear way to express their work in these terms. Conversely, investors rarely know how to think about social impact. This Toolkit can help give both sides a common language and framework to be able to speak to each other.



– **Understanding the process of raising investment –**

Social entrepreneurs often don't know the process for raising social investment. They don't know what they need to prepare, what the process involves and what investors are looking for. When they do meet investors, they may not know exactly what to ask for, nor how to negotiate.

We have produced this Toolkit to provide social entrepreneurs with a roadmap to navigate these challenges.

The social entrepreneur's dilemma

Social entrepreneurs face great challenges when trying to raise finance, more even than their commercial peers. The funding world is not easily set up to finance businesses that wish to serve a social mission. Traditionally, social causes are funded as charities, with only one form of capital: philanthropy (i.e. grants and donations). This capital requires no financial return, and operates by its own set of rules, often determined by the individual philanthropists.

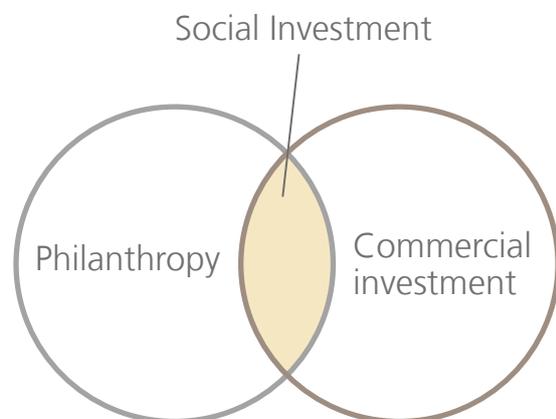
Alternatively, for-profit businesses are funded through commercial investment (i.e. debt or equity), which not only requires a financial return, but is typically structured in a way that assumes that the businesses' sole purpose is to generate as much profit as possible to maximise value for shareholders.

As a social entrepreneur, you face a difficult choice from the beginning: should you be a charity, and raise donations, or a for-profit business, and seek commercial investment? Neither alternative may appear ideal. You may find that there are not enough funds from philanthropy to meet your needs, or that the demands of philanthropists don't match with your mission. Conversely, you may find that raising traditional investment that requires you to maximise profit isn't right either – your mission compels you into activities or areas that a profit-maximising venture may hesitate to go.

The social entrepreneur who is trying to deliver a social mission through a commercial business model risks alienating both philanthropists and commercial investors, and therefore failing to raise money from either.

We call this challenge the *Social Entrepreneur's Dilemma*. Fortunately, the dilemma can be solved.

The answer is to reach out for a new form of capital called *Social Investment*.



What is social investment?

Social investment is provided by investors who care about both a financial return as well as a 'social return'. In other words, they wish to see a specific positive social or environmental impact alongside a financial return on their investment. In some cases, social investors may even be willing to accept a lower financial return (or even just the capital back without any increase) providing that they can see that the investment has made a strong social impact.

Social investment is a new and rapidly growing source of finance. It is being driven by pioneering philanthropists willing to experiment with investment as a way to increase funding for social causes, as well as a growing number of impact investment funds such as Acumen, Root Capital or Aavishkaar in India, set up to invest in socially-mission orientated businesses.

In this Toolkit, we will explain who the social investors are, what they are looking for, and how to put together a social investment offering that would appeal to a social investor.

Who is this toolkit designed for?

This Social Investment Toolkit is designed primarily for **social entrepreneurs** who are running their own social venture and looking to raise social finance. Perhaps you are uncertain about how to go about this process, or how to find investors, or what investors are looking for. If so, this Toolkit is intended for you!

Social investors will also find the modules in this Toolkit helpful. The modules and exercises can be used to help investors with their due diligence process, and analysing the strengths, weaknesses and social impact of the enterprise. The toolkit can also be used as a way for social investors to have a dialogue with social entrepreneurs. In particular, it can help social investors explain what they're looking for and how the social entrepreneur can best provide the information that the investor needs to make an informed investment decision.

Students and teachers of social enterprise, social innovation and social finance will also find the material here helpful for use in courses and workshops. In recent years there has been a great deal written about social enterprise and investment but there is a shortage of practical material telling social entrepreneurs (and aspiring social entrepreneurs) exactly how to go about raising social finance. This Toolkit is intended to fill this gap.

Finally, we hope that this material will be useful for anyone interested in the field of social innovation and finance, whether as a potential entrepreneur, investor, policy maker, supporter or for general interest.

We assume only a basic knowledge of finance. Finance is often full of intimidating jargon, and in this Toolkit we try to demystify key concepts.

Toolkit layout

This toolkit is laid out in eight 'modules', each of which walks you through a particular aspect of raising finance for your social venture. The modules are:

1 Social Change
how to define a clear social mission, how to explain to investors how your social change model works and why it is effective

The **first two modules** cover the **social impact** of your venture. How do you define and measure your social impact? These two modules help you define the purpose of your venture, as well as to measure your effectiveness achieving that purpose. These are the critical first question of any social investor.

2 Measuring Impact
how to define and measure your social impact

3 Business Model
how to set up your venture as a business to deliver your social impact

Modules 3 and 4 address your **business model**. Any social venture is still a business – you must sell goods or services to customers in order to generate income. These two modules help you define your business model – your customers, your products and services, and how you will deliver these at scale.

4 Scaling Strategy
how to set up a longer term strategy to grow your impact

5 Financial Model
building a financial forecast of your venture

Module 5 helps you build a **financial model** to forecast the cash flows of your business. This is an essential tool to have a conversation with investors about the kind of finance you are able to raise and the possible financial return that you can offer. The financial model enables investors to value your business, and to assess downside risks in case your projections do not materialise as expected.

6 Legal Structure
sorting out legal issues, such as the right legal structure for your venture

Module 6 covers the **legal aspects** of running a social venture, from your choice of incorporation (non-profit, for-profit, or some kind of hybrid?) through to issues such as registering your intellectual property, and picking a good legal advisor.

7 Financing Terms
working out the exact financing terms for negotiation with investors

Modules 7 and 8 conclude with the actual **financing** itself – what terms are you willing to offer investors, and how should you approach them? Only if you have completed the work in all 8 modules are you in a position to approach investors.

8 Investment Pitch
how to find and make a pitch to social investors, as well as tips on how to conduct negotiations

Although it is possible to tackle these modules in any order and get a lot of value from them, we recommend that you work through the modules in order. The modules are designed to build on each other and to ensure that you don't miss out on important prior advice. It is too late when negotiating with investors, for example, to discover that you haven't taken care of the legal foundations, or that you haven't prepared a financial model with accurate cash flow forecasts.

How to create impact?

- 1 Social Change
- 2 Measuring Impact



What is your business model?

- 3 Business Model
- 4 Scaling Strategy



How is your business structured?

- 5 Financial Model
- 6 Legal Structure



What is your financing ask?

- 7 Financing Terms
- 8 Investment Pitch

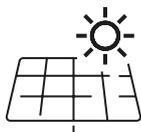
What each module contains

Each module has a number of standard sections:

- An **overview** – to describe the high level content of each module
- **Core concepts** – a summary of the key concepts that you will need to master the complete the module



- **Case studies** – we try to illustrate as many points as possible using real world case studies drawn from social entrepreneurs. Some of the case studies you will see used repeatedly throughout the modules. These examples are mainly drawn from the Ashoka Fellowship, a global network of the world's leading social entrepreneurs.



- **SolaRise case study** – we use a fictional example of a social venture called SolaRise in every module, so that you can see an example of a social venture going through the modules from start to finish. SolaRise is a fictional solar energy company operating in sub-saharan Africa. It is drawn from the case studies of many social entrepreneurs working in this field.



- **Exercises** – to help you think through particular aspects of the module. The exercises may be done by your team individually, or may be done as part of a guided workshop. We strongly recommend that you do the exercises – they are intended to provide the building blocks that will enable you to develop all of the materials necessary for approaching investors.



- **Investor tips** – we provide sections with specific tips on what social investors are looking for on particular topic, and how you can make life easier for the investor. Occasionally we also provide advice to investors on the challenges facing social entrepreneurs on a particular topic, and where this might differ from conventional ventures.
- **Additional resources** – some of the modules provide additional resources. For example, the Financial Model module has a template Excel spreadsheet that you can adapt for your own financial forecasts. We also provide draft term sheets in the Financing Terms module that can be adapted for use.
- **Summary** – each module concludes with a brief recap of the key content covered in the module

What we don't cover in this toolkit

This toolkit is intended to cover the process of raising social investment for a social venture. As such, it is not a comprehensive manual of social enterprise and there are many important topics that we can't cover, or only touch upon very lightly.

Some of these important topics that we don't address include:

- How to recruit and manage a team
- Marketing and sales strategy
- IT and operations
- Managing a supply chain
- Distribution channels

If you need further insight into these topics, we have provided a list of social enterprise resources in the Appendix that will help you.

How to use this toolkit

You should feel free to dive into modules as you see fit, and pull out the relevant items or exercises that are most pertinent to you; depending on which stage your venture is at. We highly recommend however that you at least read through all of the earlier modules in order to ensure that you have completed prior steps, or at least understand the concepts that were introduced earlier.

If you are relatively early in your venture, we strongly recommend that you work through the modules in the order presented. The early modules provide a solid foundation. The modules are designed to build on each other, and some modules cannot be completed without work carried over from the prior ones. We will highlight in each module what you need to have completed beforehand to be able to proceed. This is particularly true for the final two modules, which take you through the steps leading up to making an investment pitch and closing negotiations with investors. Certain prior steps – building a financial model, ensuring correct legal structure and having a financing term sheet, for example – must all be done in the right order, and before you start talking to investors.

Definitions

Before proceeding further, let's start with some basic definitions. Not everyone agrees on definitions or uses terms in the same way. The definitions provided here are how we will use them in this Toolkit:

'Social Impact' means a positive impact in society. There is a lot of literature about what is and isn't social impact (and we'll cover it in more detail in modules one and two). We are being deliberately broad – social impact could include everything from increasing jobs and livelihoods, to improvements in incomes, educational and health outcomes, or any other positive societal change that has a demonstrable impact on the wellbeing of a given community. In this Toolkit, when we speak about 'Social Impact' we also include positive environmental impact as well (i.e. reduction in resource consumption or wastage, habitat conservation etc), and use 'social' throughout as a shorthand for 'social and/or environmental'.

A **'Social Venture'** is any organisation whose primary purpose is to deliver a social mission (i.e. a clearly defined social impact). This includes non-profits, as well as for-profit businesses (which we call 'social businesses') who deliver their mission through a commercial model (i.e. by selling goods and services). The definition of social venture is therefore broad. It includes online resources funded by donations such as Wikipedia, non-profits such as Teach for America, as well as for-profit businesses with a social mission such as Aravind Eye Hospitals in India.

A **'Social Entrepreneur'** is someone who starts and runs a social venture, or who is part of the management team of a social venture. 'Social Entrepreneur' and 'Social Innovator' are very closely aligned, and often used interchangeably, although 'social innovator' is actually a broader term than social entrepreneur.

A **'Social Innovator'** is someone who develops a social innovation. This might be a new organisation bringing to market a new way of creating social and environmental impact (i.e. social entrepreneurship), but might also include the development of new methods or practices that have wide social and/or environmental impact. Florence Nightingale, who pioneered many of the methods still used in modern hospitals, is a brilliant historical example of a social innovator. So is Louis Pasteur, who developed the famous pasteurisation method for making food safe.

For the purposes of this Toolkit, we will be speaking about both social innovators and social entrepreneurs, and using these two terms interchangeably. This Toolkit is mainly aimed at social entrepreneurs looking to learn how to fund their social venture.

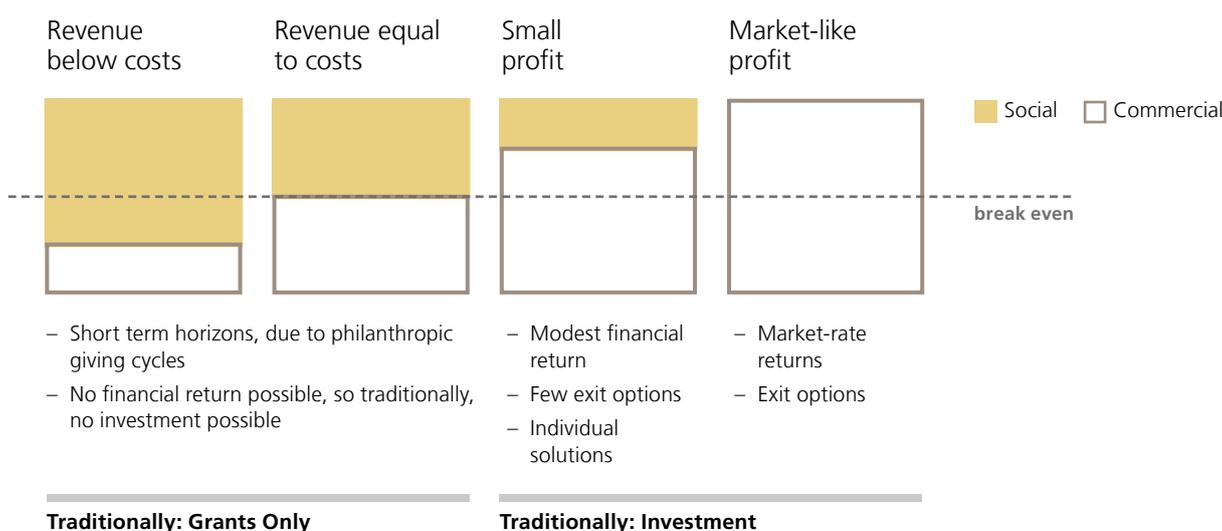
Social finance and social investment

Social Finance refers to the whole spectrum of finance that is for social ventures (i.e. organisations with a social mission, as defined above). These funders wish to achieve social and environmental objectives with their funding, as well as achieving some degree of financial return. The spectrum ranges from traditional grants (all impact, no financial return) through to commercial funding (full financial return).

In this Toolkit, we use the phrase ‘investment’ to refer to any form of finance that expects to be returned to the investor, generally with some financial gain (‘financial return’). Social Investment is a therefore subset of Social finance. It excludes any form of funding that is made without financial return expectations, such as donations or grants.

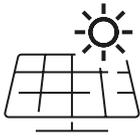
Social investment is any capital that is provided to a social venture for the purposes of supporting a social mission, with the expectation that the capital will at least be returned. In other words, the ‘financial return’ on the investment will be at least 0%, and preferably higher. A grant or donation, by contrast, is capital that has a -100% financial return (all capital is lost).

Social investment can be made in the form of a loan, or in the form of equity (buying shares in a company). The financial return is achieved from either the loan being repaid, with interest, or in the investor selling their shares in the company at some stage for some positive value (or receiving dividends from the company). We discuss both of these routes for providing social investment later in this Toolkit.



Hybrid finance uses all tools of the spectrum depending on the financing needs of the full impact model

Meet SolaRise – our fictional case study



Throughout this Toolkit, we will be using as an example of a fictional solar energy company called SolaRise. SolaRise seeks to address the problem of lack of access to affordable electricity for more than 2 billion people across the planet. Most of these people live in remote rural areas, in villages without connection to a power grid, and where average per capital income is less than \$2/day. Over 600 million live in sub-saharan Africa. SolaRise therefore decides to launch in Tanzania and Uganda, two countries with a high proportion of off-grid rural households.

SolaRise's solution is a 'Solar energy kit', which can be provided to each off-grid household. Each kit consists of a roof-mounted solar panel, enough to provide 100W of electricity. This is sufficient to power 6 high quality LED lights, as well as charge a battery-powered radio and mobile phone. Once installed, the Solar Kit provides energy for free, and can last for over 15 years if well maintained.

The social impact on rural households is enormous. Previously households spent nearly one fifth of their income on low quality kerosene wick candles for lighting. These candle lamps are not only poor quality, but they emit fumes that are dangerous, and easily cause fires. With access to good quality lighting, children can study at home late into the night, improving educational outcomes. Local shops and businesses can stay open longer, improving incomes and livelihoods. Being able to charge a mobile phone easily is transformative: the mobile phone enables access to information (such as prices in nearby market towns), communication and financial inclusion. All of these have a profound impact on remote rural villages.

We've picked the example of a solar energy company serving 'base-of-pyramid' customers (those who subsist on less than \$2-a-day) because it is a classic example of a social venture serving a complex and large social problem. SolaRise is fictional, but is based on an amalgam of several successful real world social ventures that are rolling out this solution, many of which are drawn from the Ashoka network of social entrepreneurs.

Acknowledgements

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We also wish to thank Adrian Walker, Yasmin Waljee and all the lawyers from Hogan Lovells who reviewed and provided tremendous input into the legal sections of this Toolkit, especially Module 6.

SolaRise is a fictional case study used throughout the Toolkit, but is inspired by the work of many social entrepreneurs working in off-grid solar energy, including Nick Sireau (SolarAid), Manuel Weichers (IluMexico), Xavier Hegelsen, Erica Mackey and Joshua Pierce (Off-Grid Electric), Jesse Moore (M-Kopa Solar), Sam Goldman (d.Light) and many others. No individual company's data or business model was used in the Toolkit, and all figures provided are fictional examples only. We also wish to especially thank Dr. Peter W. Heller of the 'Solar for All' Initiative for his expertise and insights.

Mark Cheng

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